SCHOLLE BROTHERS

FIVE NASSAU STREET

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Walgreen Company –

REPORT

ON

WALGREEN CO.

WALGREEN CO.

I. THE CHAIN DRUG STORE BUSINESS

1. Development and Field for Expansion

The chain drug store business has shown a remarkable growth in recent years. At present the four leading drug store chains operate about 1,100 stores as compared with 463 stores in 1925 and only 185 stores in 1916. While this growth has been extraordinary, the chain drug store business still appears to offer greater opportunities for expansion than almost any other important chain store field. According to the preliminary United States Census of Distribution conducted in eleven representative cities in 1926, chain drug sales represented only 29.9% of the total retail drug business, as compared with the following percentages for other important chain store fields:

Type of Chain	Per Cent of Total Retail Business Controlled
Variety	70.7%
Shoe	51.8
Grocery	41.3
Cigar & Tobacco	35.5
Restaurant	33.6
Department Store	33.0

In 1928, according to the Chain Store Research Bureau, 523 chain drug organizations operated 4,053 stores, or about 7 1/2% of the total retail drug stores (about 55,000) in the country, while chain drug sales aggregated about $350,000,000, or about 20% of the total retail drug business.

Chain drug store development has so far been confined to the large cities, and has not penetrated to any extent into the smaller towns. A survey conducted by the "Druggists' Circular" showed that about 76% of the drug stores operated in chains of 10 or more units, and about 80% of all drug chains are located in cities with a population of 100,000 or over. In a survey covering 121 cities of various sizes, with a minimum population of 25,000, it was found that in only 5 cities - namely Akron, Ohio; Alameda, Cal.; Salt Lake City, Utah; Canton, Ohio; and Philadelphia, Pa. - had the drug chains secured 50% or more of the total retail drug outlets. The majority of chain drug stores are located in the states east of the Mississippi and north of the Mason and Dixon line, and only 11 out of the entire 48 states have over 100 drug chain outlets. It is evident, therefore, that the chain drug store business has an enormous field for expansion.

2. Competition

The modern drug store chain operates in a highly competitive field. No department, excepting the prescription, patent medicine and raw-drug departments, is free from the competition of organizations, not in the drug field, but carrying merchandise identical to that handled by the modern drug store chain. Cigars, cigarettes, candy, soda, luncheonette, electric appliance and book departments, all represent lines in which chain stores have already specialized. Rubber goods, bristle goods, novelty merchandise such as fountain pens, kodaks, sheet and record music, hosiery, leather goods, thermos bottles, glassware, toys, etc., all are carried by department and numerous other stores. Toilet articles, fancy goods, perfumes and cosmetics, hair tonics, facial creams, lotions, mouth washes, dentifrices, deodorants, depilatories, disinfectants, antiseptics, rouges, etc. all are carried by variety and department stores.

If price appeal was the principal essential of drug merchandising, the modern drug store chains could not very well compete with variety chains such as F. W. Woolworth. However, efficient merchandising rather than price appeal appears to be the determining factor in drug-chain competition. In fact, drug store chains cannot offer much more attractive prices than the independent druggist, due to the development of independent cooperative buying associations and wholesale distributing agencies. Price appeal, however, is only secondary to efficient drug merchandising.

3. Margin of Profit

An approximation of the percentages of sales and gross margins of profit in various departments of a modern drug store chain in New York City, according to the Chain Store Research Bureau, is as follows:

Department	Per Cent of Total Sales	Gross Margin of Profit
Soda Fountain & Luncheonette	35%	49%
Toilet Goods & Proprietaries	20	25-38
Prescriptions	15	237
Patent Medicines	13	20 1/2
Rubber Goods, Sundries, etc.	10	66-91
Cigars, Cigarettes, Candy & Stationery	5	22 1/2
Novelties & Miscellaneous	2	45-66
Total	100	45

While the average gross margin of profit of a modern drug store chain in New York City is about 45%, national drug chains have a lower margin of profit. Louis K. Liggett Company's gross profit is understood to be between 30% and 35%, while that of Walgreen Co. is about 40%.

Of the above seven departments, two are the "leader" departments upon which the chain drug store price appeal is based, namely, the patent medicine department, and the cigars, cigarettes, candy and stationery department. These two departments show the lowest gross margins of profit on sales. Only about 18% of the total merchandise sold through drug store chains, however, is retailed under a 25% gross margin of profit.

The marked success of the modern drug store chain is largely due to the high margin of profit it obtains as compared with other retail chains. The main reasons for this high margin of profit are:

1. The "professional " atmosphere of the store, which permits better prices to be realized at the soda fountain and the non-drug departments.

2. More "blind" articles (namely, merchandise the consumer has no definite standard to judge values upon) are sold than in any other retail stores.

It has been estimated thatthere are about 50,000 items distributed today via chain drug stores. One important chain drug organization carries 8,000 items in an average store. In fact, the modern drug store chain is really a "baby" department store and restaurant chain, working eighteen hours a day and seven days a week.

4. Leading Companies

The chain drug store business today is largely concentrated in the hands of four leading companies: Louis K. Liggett Company, Walgreen Co., The Owl Drug Company, and Peoples Drug Stores, Inc. The sales of these four companies in 1928 amounted to about $125,000,000, or over 35% of the total chain drug store sales of the country. The relative position of these companies in the industry is shown here:

Name	No. of Stores As at July 31 1929	1928	Percent Increase	Sales Est. 1929	1928	Per Cent Increase
Louis K. Liggett Co.*	549	463	18.6%	$73,500,000	$64,000,000#	15.0%
Walgreen Co.	324(a)	205(a)	58.0	48,000,000	31,389,313	53.0
Owl Drug Co.	104	101	3.0	18,500,000	18,085,345	2.0
Peoples Drug Stores,Inc.	108	78	38.5	15,800,000	11,342,604	40.0

* Wholly-owned subsidiary of Drug, Inc. # Estimated
(a) Includes Economical Drug Co.

Louis K. Liggett Company and Walgreen Co. are the only national drug store chains. Their stores are located in most of the important cities of the country and their names are nationally known. The Owl Drug Company and the Peoples Drug Stores, Inc., on the other hand, are local chains. Owl Drug concentrates on the Pacific Coast, while Peoples Drug specializes in the territory surrounding Washington, D.C.

Louis K. Liggett Company is entirely owned by Drug, Inc., which is also engaged in the manufacture of pharmaceutical and allied products. Walgreen Co. is, therefore, the only national drug store chain, whose shares are directly available to the public. The fact that it is also the fastest growing drug store chain in the country makes a study of the company particularly interesting.

II. WALGREEN CO.

1. History and Business

Walgreen Co., the second largest drug store chain in the United States, was originally started in 1902 by Mr. C. R. Walgreen, with a single drug store in Chicago. The present Company was incorporated under the laws of Illinois in 1909, when it had two stores. Since that time the Company has steadily increased the number of its stores, and the business has expanded both in total volume and in sales per store, as shown by the following table:

Year	Average Number of Stores Operated	Total Sales	Sales per Store
1916	8	$ 270,000	$ 33,750
1918	12	600,000	50,000
1920	19	1,550,000	81,579
1922	23	2,473,320	107,536
1923	36	3,614,349	100,399
1924	50	5,586,443	111,729
1925	69	9,319,794	135,069
1926	96	13,494,878	140,572
1927	135	20,892,957	154,763
1928	190	31,389,313	165,207
1929	324*	~~48,000,000#~~ 46,622,640	144,000

* A s at July 31, 1929 (including Economical Drug Co.) # Estimated

During the past year the Company has carried out a vigorous expansion policy, both in opening new stores and in acquiring existing chains. On July 31, 1929 the Company operated 324 stores, as compared with 205 stores on July 31, 1928. Since July, 1928, the Company has acquired the following existing chains.

Chain Acquired	Location	Date Acquired	No. of Stores
George B. Evans Co.	Philadelphia, Pa.	Oct. 1928	8
Goldsmith Bros.	Indianapolis, Ind.	Dec. 1928	12
Linck Drug Co.	Kansas City, Mo.	Mar. 1929	7
West Drug Co.	Grand Rapids, Mich.	Mar. 1929	3
Court House Pharmacies	Houston, Tex.	Apr. 1929	9
Sun Drug Co.	Denver, Col.	May 1929	11
Total			50

On July 31, 1929 the Company operated 324 stores, located in about 50 cities, including Chicago, Milwaukee, St. Louis, New York, Indianapolis, Denver, Kansas City, Houston, Rochester, Grand Rapids, Minneapolis, St. Paul, Memphis, South Bend, Columbus, Lansing, Louisville, Sioux City, Philadelphia, Pittsburg, Detroit, and Omaha. The Company has about 135 stores in Chicago, 21 in Milwaukee, 19 in St. Louis, and 14 in the New York metropolitan area. The Company plans to open 14 new stores in October.

Besides its own laboratories for the manufacture of creams, pastes, perfumes and pharmaceuticals, the Company owns two creameries, one at Holgate, Ohio and one at Shelbyville, Illinois. It also owns 7 ice cream plants located in Chicago, St. Louis, Minneapolis, Denver, Rochester, Philadelphia and Columbus. The Company recently purchased a site in Long Island City, N.Y., on which it plans to erect a large warehouse to be used for the manufacture of ice cream and the distribution of drugs and toilet articles to its chain of stores in the metropolitan area.

At present the Company has about 5,500 employees.

2. Store Operation and Merchandising Policies

The success of the Company has been largely due to the excellent location and attractive character of their stores, coupled with modern drug store merchandising policies. Chain drug stores, in general, regard pedestrian transient traffic as the most important factor in securing good locations. Practically all Liggett stores are located where crowds are constantly moving past the store site. The smaller chains, on the contrary, locate in districts with a more residential character, where they can obtain a considerable community prescription trade.

Walgreen Co., however, combines a good transient trade with community or residential patronage. Mr. C. R. Walgreen says, "We have no mechanical rule, no clocking of passers-by. We have the corner reported, of course, but our secret is the application of psychology and common sense. If we go into a neighborhood, we desire a dense population to back up the store. We do not want to pioneer. A good location is one of the most important factors in success."

Walgreen stores are large and spacious, usually being characterized by small or medium-sized fronts but spacious store interiors running back 70 to 100 feet in length. Very attractive fixtures and lighting features are used and large rear tea rooms, coupled with the regular luncheonette and soda fountain trade, are stressed. The prescription department is the least conspicuous feature of the stores, while the soda fountain counter is the most prominent feature.

On the other hand, the Walgreen stores do not neglect the professional druggist atmosphere. The store and lighting fixtures and the merchandise are arranged so as to give the stores a professional character. Besides, each store manager must be a registered pharmacist.

In advertising, the Walgreen stores use an extensive "leader" policy. They offer certain nationally advertised articles such as tooth pastes, disinfectants, antiseptics, etc. at very low margins, in order to draw customers to make purchases in other lines on which a high margin of profit is obtained. In opening its New York stores, the Company advertised a special free offer of a box of nationally advertised products, sample sizes, including face powders, cold creams, candies, toilet soaps, dentifrices, etc., with every purchase of $1 or over. The Company gives away about 3,000 of these sample boxes at each store opening.

As a result of trained sales suggestion and combination commodity groupings, the Walgreen stores show an average sale of 60¢ to 65¢ per customer and on sale days as high as $1.50 to $1.75. "Courtesy Plus Service" is emphasized in the handling of customers, and all sales are on a strictly cash basis.

3. Capitalization

The capitalization of the Company as at June 30, 1929, was as follows:

	Authorized	Outstanding
6½% Cumulative Preferred Stock (par value $100)	$4,500,000	$4,500,000(a)
Minority Interest in Subsidiary Companies	-	279,104(b)
Common Stock (no par value)	1,000,000 shs.(c)	833,640 shs.(d)

(a) Includes about $373,625 par value of Preferred Stock held for resale in the treasury.
(b) Preferred Stock $226,806; Common Stock $52,298.
(c) 88,597 shares are reserved for purchase warrants outstanding.
15,925 shares are reserved for conversion of preferred stock in a subsidary company and of employees' purchase warrants outstanding.
61,838 shares are reserved for general corporate purposes.
(d) Includes a small amount of Common Stock held for resale in the treasury.

On December 29, 1927 the Company sold the above $4,500,000 par value of 6½% Cumulative Preferred Stock, with Common Stock purchase warrants, to Messrs. Hallgarten & Co. and Merrill, Lynch & Co. for cash. The bankers then offered to holders of the old 8% Preferres Stock of the Company the right to subscribe for the new 6½% Preferred Stock, share for share, on the same terms as offered to the public. Only $2,712,100 of the issue was offered for public subscription in January, 1928, at 108¼.

The proceeds of this issue of Preferred Stock were used, in part, for the retirement (at 103 and accrued dividends) of $1,802,900 par value of 8% Preferred Stock formerly outstanding; and to provide for the further expansion of the business.

The Preferred Stock is redeemable, in whole or in part, at any time on not not less than 60 days' notice at $115 per share on or before December 31, 1935, the price thereafter decreasing $1 each year until December 31, 1942, after which date the redemption price is $107.50 per share. It has equal voting power with the Common Stock - one vote per share.

Two detached common stock purchase warrants were sold with each share of Preferred Stock. Each Warrant entitled the holder to purchase 1 share of Common Stock as follows:

Year	Price
In 1928 or 1929	$27.50
In 1930 or 1931	35.00
In 1932 or 1933	42.50
In 1934 or 1935	50.00

The Warrant Agreement appears to protect the rights of the warrant holder in the event of an increase in the capitalization of the Company.

Of the 90,000 warrants originally sold with the Preferred Stock, 88,597 were outstanding as at June 30, 1929. There were also 15,925 shares of Common Stock reserved for the conversion of the preferred stock of a subsidiary company and for employees' purchase warrants.

There has never been a substantial public offering of the Company's Common Stock. In March, 1928, Messrs. Hallgarten & Co., Merrill, Lynch & Co., and Shields & Co., purchased from Mr. C. R. Walgreen and his associates only 40,000 shares of Common Stock and offered it to the public at $44 per share. It was greatly oversubscribed and immediately sold at a premium.

Since the recapitalization in December, 1927, the Common Stock has been increased as follows:

Date	Common Stock Outstanding	Reserved for Purchase Warrants	Reserved for Subs. Co. Preferred & Employees' Purchase Warrants	Total Outstanding & Reserved
Dec. 31, 1927	760,000 shares	90,000 shares	-	850,000 shares
Jun. 30, 1928	766,354	89,646	-	856,000
Dec. 31, 1928	828,227	89,170	9,936 shares	927,333
Jun. 30, 1929	833,640	88,597	15,925	938,162

Since December 31, 1927, the Common Stock outstanding has been increased by only 73,640 shares, or less than 10%, while sales and net profits have more than doubled during that period.

4. Balance Sheet

The comparative consolidated balance sheets of the Company and its subsidiaries as at June 30, 1929, December 31, 1928, June 30, 1928, December 31, 1927 and December 31, 1926, are reported as follows:

ASSETS	*Jun.30,1929	Dec.31,1928	Jun.30,1928	Dec.31,1927	Dec.31,1926
Current Assets:					
Cash	$ 1,561,442	$ 1,314,220	$ 1,521,213	$ 875,211	$ 263,508
Trade Accounts, Advances on Merchandise, & Sundry Receivables	202,591	2,127,834(a)	308,936	373,448	208,137
Notes, Contracts, Employees Stock Subscriptions, etc.	47,463	35,906	62,851	67,831	48,538
Merchandise at retail stores, warehouses & factories, valued at lower of cost or market	5,597,821	4,439,326	3,086,279	3,219,261	1,945,538
Total Current Assets	$ 7,409,317	$ 7,917,286	$ 5,051,279	$ 4,535,751	$ 2,465,521
Cash Surrender Value of Life Insurance	66,220	56,550	33,056	24,601	12,643
Prepaid Rent, Insurance, Taxes, Etc.	409,912	231,084	163,467	131,376	67,475
Treasury Preferred & Common Stock (held for resale) at lower of cost or market	401,311	293,791	336,826	47,965	-
Investments in Other Companies (at cost)	325,702	665,651	215,446	211,146	61,250
Fixed Assets (at cost less depreciation & amortization):					
Land & Buildings	448,966	318,777	249,396	251,852	258,079
Equipment - store, factory, warehouse, etc.	6,124,544	4,616,575	3,702,510	3,551,390	2,029,753
Leaseholds & Leasehold Improvements	1,697,135	1,103,698	1,065,666	995,017	318,569
Total Fixed Assets	8,270,645	6,039,050	5,017,572	4,798,259	2,606,401
Goodwill, Store Leases, Organization, etc.	1	1	1	1	1
TOTAL ASSETS	$16,883,108	$15,203,413	$10,817,647	$ 9,749,099	$ 5,213,291
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 1,161,619	$ 1,204,232	$ 639,536	$ 540,617	$ 448,071
Notes & Mortgages Payable	(b)53,654	-	(b) 6,611	(b)77,020	793,100
Employees' Investment Certificates	76,308	52,900	61,050	70,550	78,150
Accrued Salaries & Other Expenses	221,963	292,101	135,048	225,348	181,660
Provision for Federal Income Tax	165,744	502,500	108,420	232,566	141,273
Accrual-Reserve for Federal Income Tax	184,750	-	120,000	-	-
Total Current Liabilities	$ 1,864,038	$ 2,051,733	$ 1,070,666	$ 1,146,101	$ 1,642,254
Preferred Stock	4,500,000	4,500,000	4,500,000	4,500,000	1,000,000
Minority Interest in Subsidiary Cos.	279,104	-	-	-	-
Common Stock & Surplus	10,239,966	8,651,680	5,246,981	4,102,998	2,571,037
TOTAL LIABILITIES	$16,883,108	$15,203,413	$10,817,647	$ 9,749,099	$ 5,213,291
Working Capital	$ 5,545,279	$ 5,865,553	$ 3,980,613	$ 3,389,650	$ 823,267
Current Ratio	3.97	3.86	4.72	3.95	1.50

	Jun.30,1929	Dec.31,1928	Jun.30,1928	Dec.31,1927	Dec.31,1926
Shares of Common Stock:					
Outstanding	833,640	828,227	766,354	760,000	76,000
Reserved for Purchase Warrants outstanding	88,597	89,170	89,646	90,000	-
Reserved for Conversion of Subsidiary Co. Preferred Stock and Employees' Purchase Warrants	15,925	9,936	-	-	-
Total Shares	938,162	927,333	856,000	850,000	76,000

* Includes Economical Drug Co., formerly controlled by the Company.
(a) Including receivable arising from sale of capital assets (approximately $2,000,000 of which was received in cash during Jan. 1929)
(b) Assumed in capital purchases.

The financial condition of the Company as at June 30, 1929 was excellent, notwithstanding the extraordinary expansion of the Company's facilities. Current assets (including $1,561,442 cash) amounted to $7,409,317, as compared with current liabilities of only $1,864,038, or a current ratio of 3.97 to 1. Working capital on June 30, 1929 amounted to $5,545,279 as compared with $3,980,613 on June 30, 1928.

"Investments in Other Companies", carried in the balance sheet as at June 30, 1929 at cost of $325,702, includes, among other securities, memberships in Federated Druggists, a Massachusetts Trust, which forms a manufacturing and wholesale subsidiary of the Company. Each store of Walgreen Co., and Economical Drug Company owns a membership in the Trust, which is controlled by the Company.

Prior to June 30, 1929, "Investments in Other Companies" included over 76% of the common stock of Economical Drug Company. This company has 20 stores in Chicago, which are controlled and directed by Walgreen Co. The June 30, 1929 balance sheet of the Company, however, includes the assets and liabilities of Economical Drug Company.

"Fixed Assets", carried in the balance sheet as at June 30, 1929 at $8,270,645, are very conservatively valued, due to the liberal depreciation and charge-off policy of the Company.

"Goodwill, Store Leases, Organization, etc." have always been carried in the balance sheets of the Company at the nominal value of $1.

The conservative accounting policy of the Company is indicated by the sale of certain capital assets during the last six months of 1928 for about $2,000,000, although no reduction appears in any of the capital assets during that period. It is probable that the Company sold certain leaseholds, store leases and/or land and buildings, which were carried on the Company's books at very low or nominal valuations, for this substantial sum.

5. Sales and Earnings

The consolidated net sales and net earnings of the Company and its subsidiaries, excluding Economical Drug Co. and Federated Druggists, for the six year period ended December 31, 1928, and for the first six months of 1929 as compared with the same period of 1928, follows:

	Six Months Ended		Years Ended December 31	
	Jun.30,1929*	Jun.30,1928*	1928#	1927#
Net Sales	$21,001,554	$13,657,340	$31,389,313	$20,892,957
Cost of Sales	12,717,975	8,285,617	19,230,644	13,001,291
Gross Profit	8,283,579	5,371,723	12,158,669	7,891,666
Store Expense)	6,484,205	4,209,820	8,360,421	5,634,746
General & Administrative Exp.)				279,293
Depreciation on Buildings & Equipment	234,061	145,289	313,715	229,628
Amortization of Leaseholds & Improvements thereto	79,400	54,017	90,185	63,009
Total Operating Deductions	6,797,666	4,409,126	9,264,321	6,206,676
Net Profit from Operations	1,485,913	962,597	2,894,348	1,684,991
Other Income	223,800	232,782	284,976	127,594
Net Profits before Other Charges	1,709,713	1,195,379	3,179,324	1,812,585
Other Charges	21,807	30,405	94,400	78,399
Net Profits before Minority Interests	1,687,906	1,164,974	3,084,924	1,734,186
Portion of Subsidiary Cos.' Loss Applicable to Minority Interests	2,795	-	-	-
Net Profits before Improvements to Leased Buildings & Federal Income Tax	1,690,701	1,164,974	3,084,924	1,734,186
Improvements to Leased Bldgs.(a)	-	-	-	-
Federal Income Tax	184,750	120,000	332,500	232,933
Net Profits	$ 1,505,951	$ 1,044,974	$ 2,752,424	$ 1,501,253

	Years Ended December 31			
	1926#	1925#	1924#	1923#
Net Sales	$13,494,878	$ 9,319,794	$ 5,586,443	$ 3,614,349
Cost of Sales	8,487,949	6,117,507	3,610,502	2,494,555
Gross Profit	5,006,929	3,202,287	1,975,941	1,119,794
Store Expense	3,541,889	2,365,285	1,416,690	906,038
General & Administrative Exp.	152,166	82,565	49,347	40,406
Depreciation on Buildings & Equipment	142,758	72,194	42,049	27,974
Amortization of Leaseholds & Improvements thereto	24,416	-	-	-
Total Operating Deductions	3,861,229	2,520,044	1,508,086	974,418
Net Profit from Operations	1,145,700	682,243	467,855	145,376
Other Income	91,728	91,520	70,110	87,259
Net Profits before Other Charges	1,237,428	773,763	537,965	232,635
Other Charges	77,858	49,876	6,382	8,204
Net Profits before Minority Interests	1,159,570	723,887	531,583	224,431
Portion of Subsidiary Cos.' Loss Applicable to Minority Interest	-	-	-	-
Net Profits before Improvements to Leased Bldgs. & Federal Income Tax	1,159,570	723,887	531,583	224,431
Improvements to Leased Bldgs.(a)	-	91,412	38,361	7,548
Federal Income Tax	153,363	74,148	54,112	25,248
Net Profits	$ 1,006,207	$ 558,326	$ 439,110	$ 191,634

* Company figures, which differ from the audited figures in that "Cash & Quantity Discounts" are excluded from "Cost of Sales" and included in "Other Income"

\# Audited figures

(a) Beginning with 1926 the Company adopted the policy of capitalizing leasehold improvements and amortizing them over the life of the lease.

The growth of the sales and net profits of the Company since 1923 is shown here:

Year Ended Dec.31	Net Sales	Per Cent Increase	Net Profits	Per Cent Increase	Per Cent of Net Sales: Gross Profit	Per Cent of Net Sales: Operating Profit	Per Cent of Net Sales: Net Profit
1923	$ 3,614,349		$ 191,334		30.98%	4.02%	5.30%
1924	5,586,443	54.6	439,110	129.1%	35.37	8.37	7.86
1925	9,319,794	66.8	558,326	27.1	34.36	7.32	5.99
1926	13,494,878	44.8	1,006,207	[illegible]0.2	37.10	8.49	7.46
1927	20,892,957	54.8	1,501,253	49.2	37.77	8.06	7.19
1928	31,389,313	50.2	2,752,424	83.4	38.74	9.22	8.77
1929(Est)	~~48,000,000~~ 46,622,640	53.0	~~4,000,000~~ 3,136,466	45.0	38.85	9.25	8.30
1st 6 mos. 1928	13,657,340	-	1,044,974	-	39.33	7.05	7.65
1st 6 mos. 1929	21,001,554	53.8	1,505,951	44.1	39.44	7.08	7.17

The Company publicly reports its sales every month. The published sales for the first six months of 1929 amounted to $21,000,242, as compared with $14,223,646 for the same period of 1928, or an increase of 47.6%. The published sales for the first six months of 1928 are higher than the figures reported by the Company in its semi-annual report. It is probable that the sales of certain companies acquired in 1929 are now included for the same period of 1928.

September sales amounted to $3,926,815, as compared with $2,644,030 in September, 1928, an increase of 48.5%. Sales for the first nine months of 1929 amounted to $33,108,025, as compared with $22,285,283, an increase of 48.5%. Last year sales for the first nine months of 1928 were reported as $21,397,999, so that sales for the first nine months of 1929 really show an increase of 54.7% over those of the same period of 1928.

Net profits are very conservatively reported after liberal charges for depreciation, repairs, etc. The Company charges off depreciation on standard equipment at rates varying from 6% to 20% per annum, depending upon the class of equipment. Items of equipment which are of short life or which are of small value and easily removable, are not classed as equipment but are charged off either currently or over a period of a few months. Such items include linen, cutlery, small miscellaneous fountain items and window trimming light equipment. The average charge-off rate for all such items is about 150% per year. In other words, they are completely written off in about nine months. A very conservative policy is also followed as to repair charges, which in practice include many items which might be classed as betterments. Improvements to leaseholds are in part capitalized, and written off during the life of the lease.

As a result of such conservative accounting practices, coupled with the rapid expansion of the Company's facilities, reported net profits are probably under-stated. The extraordinary growth in the number of new stores opened in recent years has undoubtedly burdened the expense account of the Company without a compensating increase of sales. The acquisition of existing chain drug organizations during the past year has also been a burden on the Company's expense account, because in several instances the Company has remodeled and refurnished the stores acquired to conform with the general arrangement prevailing in the Company's other stores.

A remarkable feature of the Company's growth is the ability of the management to more than double sales every two years, while each year's net profit has practically equalled the sum of the net profits of the preceding two years.

The remarkable efficiency of the management is reflected in the steady increase in the percentage of gross profit and operating profit to net sales, despite the considerable expense connected with the rapid expansion of the Company's facilities.

The average sales per store and the average operating profit per store since 1923 are shown here:

Year Ended Dec. 31	Average No. of Stores Operated	Sales per Store	Operating Profit per Store
1923	36	$100,399	$ 4,038
1924	50	111,729	9,357
1925	69	135,069	9,888
1926	96	140,572	11,934
1927	135	154,765	12,481
1928	190	165,207	15,233

It is evident that the physical growth of the Company has not been too rapid for sales and operating income to keep pace with it.

The efficiency of the Company as compared with other leading drug store chains, is shown in the following table:

1928	Walgreen	Liggett	Owl	Peoples
Sales per Store	$165,207	$140,000*	$185,000	$177,000
Operating Profit per Store	15,233	#	9,300	12,100
Operating Profit, % of Sales	9.22%	#	5.02%	6.80%
Net Profit, % of Sales	8.77%	#	3.95%	6.56%
Inventory Turnover	7.07	5.60*	4.95	5.60

* Estimated
# Liggett's gross profit is between 30% and 35%, as compared with about 40% for Walgreen.

The Company is unquestionably the best managed chain drug store organization in the country.

Estimated net profits this year of $4,000,000, are equal, after preferred dividends, to about $4.50 per share on the 833,640 shares of Common Stock outstanding on June 30, 1929.

On the basis of the Company's past record, current growth and future prospects, it is reasonable to estimate net sales in 1930 at over $65,000,000, an increase of 35.4% over 1929, and net profits at over $5,300,000, an increase of 32.5% over this year. Estimated net profits of over $5,300,000 in 1930 are equal, after preferred dividends, to over $6 per share. It is expected that Walgreen Co. will be the largest chain drug store system in the country in 1931.

6. Market Record

The Preferred Stock of the Company is listed on the New York Stock Exchange, but the Common Stock is listed on the New York Curb Exchange. The floating supply of Common Stock is small, since the bulk of the stock is owned by Mr. C. R. Walgreen, the directors, and employees. The only reason that the Common Stock is not listed on the New York Stock Exchange is that the stock does not have sufficient distribution.

An initial public offering of Common Stock was made in March, 1928, when Messrs. Hallgarten & Co., Merrill, Lynch & Co. and Shields & Co., offered only 40,000 shares to the public at $44 per share. This price was equal to 27.7 times the reported 1927 earnings of $1.59 per share.

In the June, 1928 reaction of the general market, the stock sold as low as 37 1/8 on June 13, - equal to 23.3 times the previous year's earnings. A steady recovery then ensued to 102 1/2 on December 4, equal to 64.5 times the previous year's earnings and to 34.5 times the 1928 earnings of $2.97 per share (which were not known at that time). In the December, 1928 reaction of the general market, the stock sold down to 76 1/4 on December 10, but then recovered to 87 1/2 at the close of the year.

During the March, 1929 reaction of the general market, the stock sold as low as 71 1/4 on March 26, equal to 24.0 times the previous year's earnings. It then recovered to 91 3/8 on May 10 and in the market reaction later in the month sold down to 82 on May 28. The stock then rose steadily to 107 7/8 on September 6, and in the September-October reaction of the general market it sold down to 90 1/4 on October 3. In view of the pronounced weakness of the general market during this period, the stock has acted well marketwise. At present (October 3) the stock is quoted 90 1/4 bid - offered at 91.

During the first nine months of 1929 the volume of sales on the New York Curb Exchange averaged about 17,000 shares per month. In September about 25,000 shares were traded in.

At the present price of 91, the stock is selling at only 20.2 times probable earnings of $4.50 per share this year. On this basis, the stock appears attractive, in view of the limited floating supply, the rapidity of expansion and the promising prospects for the future growth of the business. In fact, the stock has usually sold between 24.0 and 34.5 times earnings. In my opinion, the stock should be purchased at present levels and never sold until the expansion policy of the Company ceases.

7. Dividend Record

Regular dividends have been paid on the Preferred Stock since issuance. No cash dividends have been paid on the Common Stock since January 1, 1921. In fact only $78,900 in the aggregate has been paid in cash dividends on the Common Stock since 1916. It has been the Company's policy to "plow back" into the business all surplus earnings after preferred dividends.

8. Management

The management of the Company is exceedingly able and ranks as the best in the chain drug store business in the country. The Directors of the Company are as follows:

C. R. Walgreen, President
A. C. Thorsen, Vice-President & Treasurer
H. Goldstine, Secretary
J. E. Ward
R. G. Schmitt

C. R. Walgreen, the founder of the business, has been largely responsible for its remarkable success and expansion. He is middle-aged and is actively in charge of the Company's operations. He appears to combine the faculty of giving close attention to detail with the ability to build up a large and strong organization.

A. C. Thorsen, who is middle-aged, has been associated with Mr. Walgreen since the organization of the present Company in 1909. H. Goldstine, J. E. Ward, and R. G. Schmitt have all been associated with the Company for a long period of years.

The control and management of the Company is entirely in the hands of Mr. Walgreen and Mr. Thorsen. These men have apparently devoted their lives to the development and expansion of the business. They are primarily interested in the growth of the Company.

Mr. Walgreen and his associates are the largest owners of the Common Stock. They sold only 40,000 shares in March, 1928, to Messrs. Hallgarten & Co., Merrill, Lynch & Co., and Shields & Co., who offered the shares to the public. It is a striking fact that none of these important banking houses is represented on the Board of Directors.

On October 31, 1928 it was officially stated that only 217,309 shares of Common Stock, or 27.2% of the total outstanding at that time (798,291 shares), were in the hands of the public, excluding Officers, Directors, Agents or Syndicate Managers, and that this stock was distributed among 548 stockholders. On February 4, 1929 the Company reported that it had 1,062 Preferred Stockholders and 810 Common Stockholders.

9. Conclusion

Walgreen Co., the second largest drug store chain in the country, has shown a remarkable growth in both sales and net earnings during recent years. This growth is expected to continue as the drug store business is one of the least exploited in the chain store field and the Company has an able and aggressive management. Net profits this year are estimated at about $4.50 per share of Common Stock, as compared with $2.97 per share in 1928. At the present price of 91, the Common Stock appears attractive in view of the indications of efficient management and strong financial condition, and the prospects for a rapid growth in the Company's facilities.

C. C. LATOUR

CCL.FCS
OCTOBER 3, 1929.